

The original and authentic
Practice value index

Thinking about the future?

Frank Taylor & Associates says if you are considering succession planning and have a leasehold practice you really need to ensure the terms and conditions of the lease are fit for a sale

We see more practices come to the market as leasehold, and whilst banks are happy to lend against a lease they do insist the lease has at least seven (ideally 10) years remaining, as they will secure the loan around the years left on the lease. So, if your lease has less than 10 years to run now might be a good time to get the term extended, without telling the landlord your succession plans.

If you own the freehold and are the landlord that will make life much simpler, or if you are considering retaining the freehold (possibly to put it into your SIPP) and will be creating a lease you should be clear what your terms will be and you can do this by discussing the property with a chartered surveyor.

Where we see issues, it is usually from a third party landlord who is either disinterested and not engaging, or may see an opportunity to benefit financially from the sale by holding the principal to ransom. We have recently been involved in a leasehold sale where it was disclosed that the lease contained a clause stating that on any application for consent to assign, the

tenant must first offer to surrender the lease to the landlord. When the landlord realised it was a sale, he insisted on this.

The principal's lawyer thought the provision was un-enforceable and sought Counsel's opinion to confirm this (yes, not cheap!) and sadly it wasn't quite as black and white as they had hoped. Counsel said that the landlord could insist that the principal had to offer to surrender the lease to the landlord first, but that if he accepted, the landlord then couldn't force the principal to actually surrender it, he could however block the assignment.

This left a bit of a stalemate and eventually the landlord did agree to surrender and re-grant the lease, but for a shorter term and with additional changes, and whilst all of this was happening the principal was undertaking his usual workload and keeping his practice on track.

CQC – the next generation...

The Care Quality Commission (CQC) has introduced new key lines of enquiries and fundamental standards have replaced the



existing outcomes, which briefly means going forward all registered providers have to be able to provide evidence that their policies and procedures within the practice are 'living' documents, and that all staff, both clinical and administrative, are fully up to date and aware.

On one hand the CQC are acknowledging that dentistry is low risk within the area it covers, however the new inspections regime is going to be far more comprehensive than before. We are running a series of one day management

seminars, which cover all aspects of leadership and management and include a section on CQC – feedback on the courses to date have been very positive and all of the delegates have felt it was a day well spent. **D**

FOR MORE INFORMATION call Frank Taylor & Associates on **0845 612 3434** or the regional office on **0161 393 7107**, email team@ft-associates.com or visit www.ft-associates.com.

Practice one - Hertfordshire

Practice location – the practice is situated in a popular shopping precinct in the middle of a busy town centre. It is leasehold with nine years of a 10-year lease with rent reviews every five years.

Practice type – this is a three-surgery, predominantly NHS practice, which specialises and is being sold to facilitate the principals retirement.

Practice financials – the gross fee income from the management information for the 12-month period is shown to be in the region of £800,000 and comprises of 96% NHS income, and 4% fee per item. The principal works full time in the practice with an associate working one session a week, a full-time orthodontic therapist, two nurses full time. Professionals complementary to the clinical team comprise of a part-time business manager a part-time practice manager, and a full-time receptionist. The business manager is the wife of the principal and will not be remaining at the practice after it has been sold.

Price achieved – a price of £1,475,000 was achieved, which was in excess of the asking price.

Agents comments – this was a very popular practice, not only was it in a prime location in Hertfordshire, it was an orthodontic practice with an impressive reputation. Orthodontic practices of this size are always in demand and this was evident when this practice went to sealed bids.

Practice two - Lancashire

Practice location – the practice occupies a two-storey, semi-detached building situated amongst a mixture of residential and local shops. It is a leasehold property with a new 15-year lease being created.

Practice type – this is a three-surgery, mainly NHS practice being sold to facilitate the relocation of the principal abroad. As a limited company this will be a share sale.

Practice financials – the gross fee income from the management information for the past 12 months is in the region of £400,000, 69% is derived from NHS income, 25% is derived from fee per item and the remaining 6% is from Denplan. The gross has been generated from the principal working four and a half days per week and is willing to stay on until the end of the current financial year. There is an associate working two and a half days per week and a therapist working one and a half days a week. Professionals complementary to the clinical team comprise of a full-time practice manager, two part-time dental nurses and a trainee nurse.

Price achieved – a price of £470,000 was achieved, which was in excess of the asking price. Funding for this practice was secured by FT&A Finance.

Agents comments – we see more practices being sold as limited companies and in some cases this makes the legal transaction more straight forward, particularly with the CQC. However, we now consider a period of six months as the average length of a legal transaction and on occasions, particularly if a third party landlord is involved, it can take up to nine months to a year.

Practice three - Surrey

Practice location – this practice occupies an attractive retail fronted property located within a parade of shops, ideally located in a village centre with a mix of residential and local shops.

Practice type – this is a two-surgery fully private practice being sold to facilitate the principals retirement. The current principal has been at the practice for 16 years.

Practice financials – the gross fee income from the management information for the past 12 months is in the region of £520,000 and is fully private. The gross has been generated from the principal working three to four days per week with two part-time associates, four self-employed hygienists working a combined two and a half days a week. Professionals complementary to the clinical team comprise of a part-time receptionist and five nurses all working part time and cover reception and surgery duties.

Price achieved – a price of £637,000 was achieved, which was slightly in excess of the asking price. The funding for this purchaser was obtained by FT&A Finance.

Agents comments – this was a classic example of how popular fully private dental practices are becoming. There was a great deal of interest in this practice and there was no doubt the location fuelled the interest. However, there is definite scope to increase the turnover at the practice by increasing the opening hours and being in a prime commuter area, this could easily be achieved by a late night during the weekend and Saturday morning surgeries.

Practice four - north London

Practice location – this practice occupies the ground floor of a semi-detached period property. It is a leasehold property, annual rental of £27,000 with 15 years remaining on the lease.

Practice type – this is a mainly private practice, which has been established over 60 years. It has operated as an expense share and one of the two principals does not work at the practice. Both principals have decided to sell at the same time so the whole practice was put to the market.

Financials – the gross income from the management information for the previous 12 months was in the region of £710,000 and comprises 82% fee per item and 18% NHS-GDS contract. The gross has been generated by one principal working one day a week, four associates working a combined 10 days a week, a self employed hygienist working four days a week, two full-time and two part-time nurses and a full-time receptionist.

Price achieved – a price of £900,000 was achieved, which was in excess of the asking price.

Agents comments – this is a classic example where two halves make more than one whole! By deciding to sell at the same time both principals achieved a far higher return than they would have done if they had sold separately. By selling at the same time not only did the principals increase the number of potential purchasers who would be interested, but significantly increased their personal wealth.